

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits Members of the Beechwood Independent Board of Education Ft. Mitchell, Kentucky

We have audited the accompanying general purpose financial statements of the Beechwood Independent Board of Education as of June 30, 2003 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits in the Appendixes I, II and III to the Independent Auditor's Contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group which should be included to conform with generally accepted accounting principles. The amounts that should be recorded as assets are not readily available.

In our opinion, except for the effect of the omission discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2003 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2003 on our consideration of Beechwood Independent Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information shown on pages 22 through 30 is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
August 29, 2003**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Beechwood Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Beechwood Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Beechwood Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Beechwood Independent School District Finance Corporation - On April 9, 1990, the Board resolved to authorize the establishment of the Beechwood Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The

Board Members of Beechwood Independent Board of Education also comprise the Corporation's Board of Directors.

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds along with the associated restrictions, follows:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund includes accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful. The Board applies all GASB pronouncements and FASB Statements and Interpretations except for those FASB Statements that conflict with a GASB pronouncement.

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. A fixed asset record is maintained for food service equipment. However, the recording policy is to remove from the equipment listing those assets which have fully depreciated. Depreciation has been calculated using the straight-line method over the estimated useful lives ranging from four to twelve years. Fixed assets are exclusively furniture and equipment.

IV. Fiduciary Fund Type (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

V. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

A) General Fixed Assets Account Group (Not Presented)

This group of accounts is established to account for all fixed assets of the District, other than those accounted for in Proprietary Fund and Trust Funds. The general fixed assets account group is not included in these general purpose financial statements since amounts that should be recorded as assets are not readily available.

B) General Long Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, including bonded debt and lease obligations, except those accounted for in Proprietary Funds and Trust Funds.

VI. Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied.

Basis of Accounting

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

Adjustments have been made to properly present the financial statements of the governmental fund types on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Those revenues susceptible to accrual are taxes, interest, grants and other miscellaneous income.

Budgetary Process

Various funds of the Board are required to adopt annual budgets.

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a cash basis which approximates GAAP accounting.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Cash, Cash Equivalents and Investments - The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. All investments are recorded at fair value based upon quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in the open market.

Various cash and investment amounts are pooled in bank deposit accounts and investment accounts. Each fund whose monies are deposited in a pooled cash or investment account has received an allocation of interest based upon the relative equity at month end.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. The inventory of the Proprietary Fund consists of purchased food. Donated commodities are not included in inventory.

Total Columns

Total columns on the financial statements are indicated as “Memorandum Only,” as data in these columns do not present financial positions, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE B-ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – DEPOSITS AND INVESTMENTS

The District’s deposits were fully insured or collateralized as required by state statutes at June 30, 2003. At year end, the carrying amount of the District’s deposits was \$967,470. Of the total bank balance, \$100,000 was covered by Federal depository insurance, with the remainder covered by a collateral agreement and collateral held in the District’s name.

Investments – All investments (including cash equivalents) are authorized by state statutes. All investments and cash equivalents were held by the District’s agent in the District’s name, (Category 2).

The District’s investments carried at fair value as of June 30, 2003 are:

Federal agency bonds	\$ <u><u>575,400</u></u>
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The District’s cash equivalents (investments with a maturity of 90 days or less) are:

U.S. Treasury money market account	\$ <u><u>182,581</u></u>
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The District’s central checking account and other cash deposits at June 30, 2003 consisted of the following:

	Bank <u>Balance</u>	Book <u>Balance</u>
Fifth Third Bank-checking	\$ <u><u>967,470</u></u>	\$ <u><u>855,752</u></u>

Due to the nature of the funds and limitations imposed by bond issue requirements, construction projects and federal financial award programs, the portion of the cash balance within the following funds is considered to be restricted:

SEEK Capital Outlay Fund	Food Service Fund
FSPK Building Fund	Activity Funds
Debt Service Funds	Construction Fund
Special Revenue Fund	

NOTE D - FIXED ASSETS

The amounts that should be recorded as assets are not readily available.

NOTE E - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Beechwood Independent School District Finance Corporation aggregating \$4,497,570.

The original amount of each issue, the issue date, and interest rates are summarized below.

<u>Issue Date</u>		<u>Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
March 1, 2000	\$	2,640,000	\$ 2,575,000	4.80%-5.65%
January 1, 2000 (KISTA)	\$	47,417	\$ 33,812	4.30%-5.30%
December 1, 1997	\$	925,000	\$ 755,000	4.20%-4.60%
October 1, 1997 (KISTA)	\$	500,000	\$ 225,000	4.10%-5.00%
February 1, 1994	\$	1,100,000	\$ 770,000	2.75%-4.90%
July 1, 1992	\$	1,495,000	\$ 70,000	3.00%-5.80%

The district, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Beechwood Independent School District Finance Corporation to construct school facilities. The district has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

A summary of obligations under capital leases is as follows:

	<u>7/1/02</u>	<u>Issued</u>	<u>Retired</u>	<u>6/30/03</u>
Bonds under capital lease	\$ 4,753,096	\$ -	\$ 324,284	\$ 4,428,812
Annexation assessment	<u>77,837</u>	<u>-</u>	<u>9,079</u>	<u>68,758</u>
	<u>\$ 4,830,933</u>	<u>\$ -</u>	<u>\$ 333,363</u>	<u>\$ 4,497,570</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, at June 30, 2003, for debt service (principal and interest) are as follows:

Fiscal Year	1992 Issue		1994 Issue		KISTA 10/1/97 Issue		12/1/97 Issue		Annexation of Property Debt
	Bonds Due	Interest Due	Bonds Due	Interest Due	Bonds Due	Interest Due	Bonds Due	Interest Due	
2003-2004	\$ 70,000	\$ 2,030	\$ 40,000	\$ 35,515	\$ 50,000	\$ 11,093	\$ 35,000	\$ 33,890	\$ 9,100
2004-2005	-	-	225,000	29,440	55,000	8,667	40,000	32,200	7,738
2005-2006	-	-	240,000	18,625	60,000	6,000	45,000	30,245	9,141
2006-2007	-	-	265,000	6,492	60,000	3,000	35,000	28,405	7,634
2007-2008	-	-	-	-	-	-	205,000	22,885	7,604
2008-2009	-	-	-	-	-	-	200,000	13,570	7,604
2009-2010	-	-	-	-	-	-	195,000	4,485	9,509
2010-2011	-	-	-	-	-	-	-	-	2,023
2011-2012	-	-	-	-	-	-	-	-	5,342
2012-2013	-	-	-	-	-	-	-	-	3,063
2013-2014	-	-	-	-	-	-	-	-	-
2014-2015	-	-	-	-	-	-	-	-	-
2015-2016	-	-	-	-	-	-	-	-	-
2016-2017	-	-	-	-	-	-	-	-	-
2017-2018	-	-	-	-	-	-	-	-	-
2018-2019	-	-	-	-	-	-	-	-	-
2019-2020	-	-	-	-	-	-	-	-	-
	<u>\$ 70,000</u>	<u>\$ 2,030</u>	<u>\$ 770,000</u>	<u>\$ 90,072</u>	<u>\$ 225,000</u>	<u>\$ 28,760</u>	<u>\$ 755,000</u>	<u>\$ 165,680</u>	<u>\$ 68,758</u>

Fiscal Year	03/01/00 Issue		KISTA 01/01/00 Issue		Total Requirement for Year
	Bonds Due	Interest Due	Bonds Due	Interest Due	
2003-2004	\$ 135,000	\$ 137,612	\$ 4,458	\$ 1,728	\$ 565,426
2004-2005	30,000	131,132	4,632	1,510	565,319
2005-2006	20,000	129,632	4,863	1,278	564,784
2006-2007	25,000	128,632	5,066	1,032	565,261
2007-2008	130,000	127,382	5,298	774	498,943
2008-2009	135,000	120,882	4,632	499	482,187
2009-2010	150,000	114,132	4,863	258	478,247
2010-2011	160,000	106,482	-	-	268,505
2011-2012	165,000	98,242	-	-	268,584
2012-2013	175,000	89,662	-	-	267,725
2013-2014	180,000	80,388	-	-	260,388
2014-2015	190,000	70,668	-	-	260,668
2015-2016	195,000	60,312	-	-	255,312
2016-2017	205,000	49,588	-	-	254,588
2017-2018	215,000	38,312	-	-	253,312
2018-2019	225,000	26,272	-	-	251,272
2019-2020	240,000	13,560	-	-	253,560
	<u>\$ 2,575,000</u>	<u>\$ 1,522,890</u>	<u>\$ 33,812</u>	<u>\$ 7,079</u>	<u>\$ 6,314,081</u>

As a result of property annexed by the District from the Kenton County Schools, the Board is obligated to pay an annual assessment to Kenton County to reimburse the County Schools for its pro-rata share of debt service attributable to the assessed value of the annexed property.

The interest portion of bonded debt lease payments paid in fiscal year 2003 totaled \$235,769.

The District leases two copiers under one operating lease that requires monthly rental payments of \$3,051.75. The original lease term is for five years and expires November, 2006. Total rent paid under this lease for the year was \$36,621. Minimum future rentals as of June 30, 2003 are as follows:

Year <u>Ending June 30,</u>	<u>Amount</u>
2004	\$ 36,621
2005	36,621
2006	36,621
2007	<u>15,259</u>
	\$ <u><u>125,122</u></u>

NOTE F - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, certified and classified employees will receive from the district an amount equal to 10% of the value of accumulated sick leave up to a maximum of \$5,000. At June 30, 2003, the amount reserved as estimated accrued leave for eligible future retirees (27 years or more of service) totaled \$27,117 and a general long-term obligation of \$27,117 has been recognized.

NOTE G - RETIREMENT PLANS

Plan Description and Funding Policy

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS), a multiple employer, public employers retirement system (PERS). Funding for the plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the federal program for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 6.34% of the employee's total compensation subject to contribution.

The plans provided for retirement, disability, and death benefits to plan members, and under certain circumstances to plan member beneficiaries.

Participating employers are required to contribute at an actuarially determined rate. Normal contributions and past service rates are determined by the Board of the plans based upon an annual valuation.

The District's contribution requirement for CERS for the year ended June 30, 2003, was \$36,273, \$35,803 in 2002 and \$41,512 in 2001. The District had a contribution requirement to KTRS of \$1,557 for 2003 and \$1,389 for 2002. The contributions represented 100% of the required contributions.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The retirement systems issued publicly available annual financial reports that include financial statements and required supplementary information. The reports may be obtained from the retirement systems by contacting their operating headquarters in Frankfort, Kentucky.

NOTE H - CONTINGENCIES

The district receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the district for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the district's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and grantors' intent to continue their programs.

NOTE I - INSURANCE AND RELATED ACTIVITIES

The district is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The district has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverages listed in the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

School Food Service	\$	68,524
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NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M - TRANSFER FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue Fund	Matching	\$ 7,461

NOTE N - ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2003 net income (loss) reported in the Board's Annual Financial Report with that shown in the accompanying financial statements:

		<u>Food Service</u>
		<u>Fund</u>
Net Income (Loss) as reported to the Department of Education	\$	(61,954)
Adjustment to inventory		622
Purchases of capital asset		5,703
Depreciation		<u>(12,895)</u>
Net Income (Loss) as reported in accompanying financial statements	\$	<u><u>(68,524)</u></u>

The following is a reconciliation of the June 30, 2003 excess revenues and other sources over expenditures and other uses reported in the Board's Annual Financial Report with that shown in the accompanying financial statements:

	General <u>Fund</u>
Excess (Deficiency) of Revenue over Expenditures as reported to the Department of Education	\$ 130,255
Additional accounts receivable/interest receivable	<u>15,276</u>
Excess (Deficiency) of Revenue over Expenditures as reported in accompanying financial statements	\$ <u><u>145,531</u></u>

NOTE O – GASB 34

GASB 34 requires that state and local government entities change their financial reporting, and the Board must adopt this statement no later than July 1, 2003. The new financial reporting model calls for financial statements integrated with government-wide reporting and enhanced fund reporting. It also requires a section for management's discussion and analysis (MD & A) and the reporting of the Board's infrastructure and depreciation.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits Members of the Beechwood Independent Board of Education Ft. Mitchell, Kentucky

We have audited the financial statements of Beechwood Independent Board of Education as of and for the year ended June 30, 2003, and have issued our report thereon dated August 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract.

Compliance

As part of obtaining reasonable assurance about whether Beechwood Independent Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract-State Audit Requirements that are required to be reported under state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beechwood Independent Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management in a separate letter dated August 29, 2003.

This report is intended solely for the information and use of management, others within the organization, Board Members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

Ft. Wright, Kentucky

August 29, 2003

Kentucky State Committee for School District Audits Members of the Beechwood Independent Board of Education Ft. Mitchell, Kentucky

In planning and performing our audit of the financial statements of Beechwood Independent Board of Education for the year ended June 30, 2003, we considered the Board's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 29, 2003 on the financial statements of the Beechwood Independent Board of Education.

STATUS OF PRIOR YEAR RECOMMENDATIONS

General:

Travel forms are not always completed for out of area travel, which should indicate purpose, date and location of trip, mileage and have attached supporting documentation.

Response: A reminder was sent to all employees notifying them that travel cannot be reimbursed unless the correct form is used. The Superintendent and Finance Officer reviewed travel expense to ensure compliance. In our current year review, no exceptions to the policy were noted.

Beechwood High School Activity Fund:

A budget was not prepared for the 2001-02 year, including budgets for each club or organization.

Response: Activity fund sponsors were notified at the beginning of the 2003 school year that budgets are required for all activity funds and no disbursements will be made without a budget on file. A budget was prepared for 2002-03.

Board employees were paid for some extra services from the Activity Funds. Board employees should only be paid through the payroll system.

Response: The Activity Fund Treasurer has been made aware of the need to pay all Board employees through the payroll system regardless of the service that is being provided. No employees were paid from Activity Funds in 2002-03.

The reasonableness of profits is not shown on fundraisers through completion of a Fundraiser Worksheet. This worksheet should be completed for all fundraisers.

Response: All teachers were notified at the beginning of the school year 2003 that fundraiser worksheets need to be completed and attached to any fundraising request. In our review of fund raising activities, six of ten fundraiser activities did not include a fundraising worksheet which documented the budget, receipts and expenses. It has been indicated that many fundraiser sponsors just won't complete the form.

Teachers do not complete the group receipt form to submit money to the treasurer. All monies received from teachers shall be accompanied with prenumbered receipts or the group receipt form.

Response: Teachers were instructed on the use of the receipts form at the opening of the 2002-2003 school year. We found no exceptions in the current year.

Tickets are not used for school dances. Tickets shall be used at all functions where admission is charged. Ticket sales forms should also be completed for all ticket sales events.

Response: Pre-numbered tickets were used for admission events and a Ticket Sales Report was completed for ticket sales events. Teachers were reminded of this at the opening of the 2003-2004 school year.

Vendor certification did not contain a signature on the standard invoices utilized by the school in some instances. No documentation was attached to verify the disbursement, only a requisition form requesting the funds to be paid. Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice or a standard invoice which must be signed by the payee.

Response: The Activity Fund Treasurer reviewed each request for payment to ensure that there is either an original invoice or a signed standard invoice. We found no exceptions in the current year.

CURRENT YEAR RECOMMENDATIONS

General: During our test of the payroll, we noted several errors in the original calculation of hours of lunchroom employees that were corrected by the payroll clerk. Such errors can cause problems if the errors are not detected and corrected. We recommend that as a routine procedure, the accuracy of the payroll calculation be rechecked by the payroll clerk in addition to the food service supervisor.

Response:

Activity Fund:

It was noted that in some instances a check is issued to a function sponsor who then refunds the cash amount to parents as a form of refund when an activity's receipts exceed the cost. All disbursements from activity funds should be by check. We recommend that all refunds to parents or others be made by check.

Response: The Activity Fund Treasurer has been instructed to only issue refunds by check to each recipient.

Because the same person receives cash receipts and authorizes disbursements, posts the cash receipts and disbursements to the general ledger, makes bank deposits and reconciles the bank statement, we recommend that additional segregation of duties be implemented. A person other than the Activity Treasurer should make the bank deposit and a person other than the Activity Treasurer should prepare the bank reconciliation.

Response:

RANKIN, RANKIN & COMPANY

Ft. Wright, Kentucky
August 29, 2003